

# REPORT OF THE AUDITOR-GENERAL TO THE LIMPOPO PROVINCIAL LEGISLATURE AND THE COUNCIL ON MOOKGOPHONG LOCAL MUNICIPALITY

## REPORT ON THE FINANCIAL STATEMENTS

### Introduction

1. I have audited the accompanying financial statements of the Mookgophong Local Municipality which comprise the statement of financial position as at 30 June 2011, the statement of financial performance, statement of changes in net assets and cash flow statement for the year then ended, and a summary of significant accounting policies and other explanatory information, as set out on pages xx to xx.

### Accounting officer's responsibility for the financial statements

2. The accounting officer is responsible for the preparation and fair presentation of these financial statements in accordance with South African Standards of Generally Recognised Accounting Practice (SA standards of GRAP) and the requirements of the Municipal Finance Management Act of South Africa, 2003 (Act No. 56 of 2003) (MFMA), and for such internal control as management determines necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### Auditor-General's responsibility

1. As required by section 188 of the Constitution of South Africa, 1996 (Act No. 108 of 1996), section 4 of the Public Audit Act of South Africa, 2004 (Act No. 25 of 2004) and section 126(3) of the MFMA, my responsibility is to express an opinion on these financial statements based on my audit.
2. I conducted my audit in accordance with International Standards on Auditing and *General Notice 1111 of 2010* issued in *Government Gazette 33872 of 15 December 2010*. Those standards require that I comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.
3. An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.
4. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my qualified audit opinion

### Basis for qualified opinion

#### Irregular expenditure

5. The entity procured goods and services amounting to R8 879 017 in contravention of the supply chain management requirements. The municipality has not disclosed this amount as irregular expenditure in a note to the financial statement as required by section 125(2)(d) of the MFMA. Furthermore, an adequate system was not in place for the identification and recognition of irregular expenditure relating to supply chain management. There were no satisfactory alternative audit procedures that I could perform to obtain reasonable assurance that all irregular expenditure was properly recorded. Consequently, I was unable to obtain

sufficient appropriate audit evidence to satisfy myself as to the completeness of irregular expenditure.

### **Trade and other receivables**

6. I reported in paragraph 32 of my prior year's audit report that appropriate audit evidence for journal transactions of R3 584 008 could not be provided. This matter was not resolved and I could not satisfy myself as to the existence, rights and valuation and allocation of the R3.5 million included in trade and other receivables. The municipality's records did not permit the application of alternative audit procedures.

### **Inventory**

7. Appropriate audit evidence could not be provided to satisfy myself as to the valuation of adjustments included in inventory amounting to R1 598 825. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that adjustments of R1 141 652 was correctly valued.

### **Trade and other payables**

8. The municipality could not provide sufficient appropriate audit evidence for transactions amounting to R1 781 901 included in trade and other payables. There were no satisfactory alternative procedures that I could perform to obtain reasonable assurance that all transactions were properly recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness, valuation and allocation of and obligations pertaining to trade and other payables.

### **Revenue**

9. I was unable to verify the completeness of revenue as a reconciliation was not performed between the underlying accounting records and the general ledger to ensure revenue was completely recorded. Consequently, I was unable to obtain sufficient appropriate audit evidence to satisfy myself as to the completeness of revenue stated at R18.8 million (2010: R9.9 million) in the financial statements.

### **Commitments**

10. I reported in paragraph 7 of my prior year's audit report that capital projects totalling R3.5 million were completed by year-end and incorrectly included in the commitment balance of R7.9 million. This matter was not resolved and I could not satisfy myself as to the valuation of the R3.5 million included in commitments.

### **Cash and cash equivalents**

11. I reported in paragraph 5 of my prior year's audit report that suspense accounts totalling R10.2 million that were included in the cash and cash equivalents balance of R7.9 million were not cleared at year end. I could not satisfy myself that this matter was adequately resolved in the current year and to conclude what impact, if any, the suspense accounts should have had on the comparative balances of the municipality.

### **Qualified opinion**

12. In my opinion, except for the possible effects of the matters described in the Basis for qualified opinion paragraphs, the financial statements present fairly, in all material respects, the financial position of the Mookgophong Local Municipality as at 30 June 2011, and its financial performance and cash flows for the year then ended in accordance with the SA standards of GRAP and in the manner required by the MFMA.

### **Emphasis of matters**

I draw attention to the matters below. My opinion is not modified in respect of these matters.

### **Restatement of corresponding figures**

13. As disclosed in note 42 to the financial statements, the corresponding figures for 30 June 2010 have been restated as a result of correcting prior year audit errors and errors discovered during 2011 in the financial statements of the Mookgophong Local Municipality at, and for the year ended, 30 June 2010.

### **Irregular expenditure**

14. As disclosed in note 44.3 to the financial statements the municipality incurred irregular expenditure of R4,4 million as a result of staff benefits paid without approved policies.

### **Unauthorised expenditure**

15. As disclosed in note 44.1 to the financial statements the municipality incurred unauthorised expenditure of R28,6 million, due to the actual expenditure exceeding the total budget and conditional grants utilised for purposes other than prescribed.

### **Additional matter**

I draw attention to the matter below. My opinion is not modified in respect of this matter.

### **Unaudited supplementary schedules**

16. The supplementary information set out on pages xx to xx does not form part of the financial statements and is presented as additional information. I have not audited these schedules and, accordingly, I do not express an opinion thereon.

## **REPORT ON OTHER LEGAL AND REGULATORY REQUIREMENTS**

17. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I include below my findings on the annual performance report as set out on pages XX to XX and material non-compliance with laws and regulations applicable to the municipality.

### **Predetermined objectives**

#### **Presentation of information**

18. The reported performance against predetermined objectives was deficient in respect of the following criteria:
- Performance against predetermined objectives was not reported using the National Treasury guidelines.
19. The following audit finding relate to the above criteria:
- Measures between the planned and the actual reported targets for the objectives were not provided, as required in terms of the relevant reporting guidance.

### **Usefulness of information**

20. The reported performance information was deficient in respect of the following criteria:
- Consistency: The reported indicators and targets are not consistent with the approved integrated development plan.
  - Measurability: The indicators are not well defined and verifiable, and targets are not specific, measurable, and time bound.
21. The following audit findings relate to the above criteria:
- Reported performance against predetermined indicators and targets is not consistent with the approved integrated development plan.

- For the selected objectives, 100% of the planned and reported indicators were not clear, as unambiguous data definitions were not available to allow for data to be collected consistently.
- For the selected objectives valid performance management processes and systems that produce actual performance against the planned indicators do not exist for 100% of the indicators.
- Valid performance management processes and systems that produce actual performance against the planned indicators and measures do not exist for the indicators and measures.
- For the selected objectives, 30% of the planned and reported targets were not specific in clearly identifying the nature and the required level of performance
- For the selected objectives, 30% of the planned and reported targets were not measurable in identifying the required performance
- For the selected objectives, 30% of the planned and reported targets were not time-bound in specifying the time period or deadline for delivery.

### **Reliability of information**

22. The reported performance information was deficient in respect of the following criteria:

- **Validity:** The reported performance did not occur and does not pertain to the entity.
- **Accuracy:** The amounts, numbers and other data relating to reported actual performance have not been recorded and reported appropriately.
- **Completeness:** All actual results and events that should have been recorded have not been included in the reported performance information.

23. The following audit finding relate to the above criteria:

- For the selected objectives the validity, accuracy and completeness of 70% of the reported indicators could not be established as sufficient appropriate audit evidence could not be provided.

### **Compliance with laws and regulations**

#### **Strategic planning and performance management**

24. The municipality did not adopt a framework that describes and represents how the municipality's cycle and processes of performance planning, monitoring, measurement, review, reporting and improvement will be conducted, organised and managed, including determining the roles of the different role players as required by sections 38, 39, 40 and 41 of the Municipal Systems Act of South Africa, 2000 (Act No. 32 of 2000) (MSA) and Municipal Planning and Performance Management Regulations 7 and 8.
25. The accounting officer of the municipality did not by 25 January 2011 assess the performance of the municipality during the first half of the financial year, taking into account the municipality's service delivery performance during the first half of the financial year and the service delivery targets and performance indicators set in the service delivery and budget implementation plan as required by section 72(1)(a)(ii) of the MFMA.

#### **Budgets**

26. The municipality incurred expenditure that was not budgeted for, in contravention of section 15 of the MFMA.

#### **Annual financial statements, performance and annual reports**

27. The financial statements submitted for auditing were not prepared in all material respects in accordance with the requirements of section 122 of the Municipal Finance Management Act. Material misstatements of provision for doubtful debt, accumulated surplus and disclosure

items identified by the auditors were subsequently corrected, but the uncorrected material misstatements resulted in the financial statements receiving a qualified audit opinion.

28. The accounting officer did not make the 2009-10 annual report public immediately after the annual report was tabled in the council as required by section 127(5) of the MFMA.
29. The accounting officer did not make public the council's oversight report on the 2009-10 annual report within seven days of its adoption, as required by section 129(3) of the MFMA.
30. The performance report for the financial year under review was not prepared as required by section 46 of the Municipal Systems Act and section 121(3)(c) of the Municipal Finance Management Act.

#### **Audit committee**

31. The audit committee did not function as required by section 166(2) of the MFMA.

#### **Internal audit**

32. The internal audit unit did not function as required by section 165(2) of the MFMA.
33. Internal audit did not report to the audit committee on matters relating to compliance with the MFMA, the DoRA and other applicable legislation as required by section 165(2)(b) of the MFMA.
34. The municipality did not develop and implement mechanisms, systems and processes for auditing the results of performance measurement as part of its internal audit processes as required by section 45(1)(a) of the MSA and Municipal Planning and Performance Management Regulation 14.

#### **Procurement and contract management**

35. Goods and services with a transaction value of between R10 000 and R200 000 were procured without obtaining written price quotations from at least three different prospective providers, as per the requirements of SCM regulation 17(a) and (c).
36. Goods and services with a transaction value above R200 000 were procured without inviting competitive bids, as per the requirements of SCM regulation 19(a) and 36(1).
37. Awards were made to providers who are persons in service of other state institutions, in contravention of the requirements of SCM regulation 44. Furthermore, the providers failed to declare that they were in the service of the state as required by SCM regulation 13(c).
38. Invitations for competitive bidding were not always advertised for a required minimum period of days as per the requirements of SCM regulation 22(1) & 22(2).
39. An award was made to a provider based on criteria that were not stipulated in the original bid documents as per the requirements of SCM regulation 21(b).

#### **Expenditure management**

40. The accounting officer did not take reasonable steps to prevent unauthorised expenditure, irregular expenditure and fruitless and wasteful expenditure, as required by section 62(1)(d) of the MFMA.
41. Money owing by the municipality was not always paid within 30 days of receiving an invoice or statement, as required by section 65(2)(e) of the MFMA.

#### **Transfer and conditional grants**

42. The municipality did not always submit quarterly reports to the transferring national officer on non-financial performance in respect of the allocation received for finance management grant and municipal systems improvement grant as required by section 11(2)(c) of the Division of Revenue Act (DoRA).
43. The accounting officer did not evaluate the performance of the municipality in respect of programmes funded or partially funded by a schedule 4 allocation within two months after the end of the financial year as required by section 11(6) of the DoRA.

## INTERNAL CONTROL

44. In accordance with the PAA and in terms of *General notice 1111 of 2010*, issued in *Government Gazette 33872 of 15 December 2010*, I considered internal control relevant to my audit, but not for the purpose of expressing an opinion on the effectiveness of internal control. The matters reported below are limited to the significant deficiencies that resulted in the basis for qualified opinion, the findings on the annual performance report and the findings on compliance with laws and regulations included in this report.

- **Leadership**

The suspension of the accounting officer and subsequent appointment of two acting municipal managers impacted negatively on the control environment that is not conducive to good accountability and service delivery.

The accounting officer and management did not exercise oversight responsibility over performance reporting and compliance with laws and regulations and the enforcement of SCM regulations.

The accounting officer and the council did not provide effective leadership in ensuring the effective functioning of an audit committee.

Human resource policies were not in place although staff benefits were paid.

- **Financial and performance management**

Ineffective monitoring of monthly financial information resulted in the budget being exceeded by a material amount and unspent conditional grants.

The performance information included in the annual report was not reviewed for completeness and accuracy prior submission for audit whilst appropriate audit evidence to substantiate the outcomes on the performance information was not available.

The financial statements were subjected to material amendments resulting from the audit.

- **Governance**

Internal controls were not selected to prevent and detect inadequate reporting on predetermined objectives.

The municipality did not develop and implement mechanisms, systems and processes for auditing the final results of performance measurement as part of its internal audit processes.

Management did not ensure that there is a functioning internal audit unit throughout the year that identifies internal control deficiencies and recommends corrective action effectively and timely.

## OTHER REPORTS

### Investigations

#### Investigations completed during the financial year

45. The MEC of the provincial Department of Cooperative Governance Human Settlement and Traditional Affairs designated a person to conduct an investigation into the institutional instability and governance failure in the municipality. Resulting from the findings the municipal manager and chief financial officer resigned in September 2011.
46. An investigation was being conducted to probe the manner in which a number of tenders were awarded. The investigation aimed to establish whether funds were utilised for its intended

purpose and in accordance with the supply chain management policy. The investigation was completed and the municipality is assessing the recommendations for disciplinary actions and corrective measures.

*auditor-general.*

Polokwane

30 November 2011



AUDITOR-GENERAL  
SOUTH AFRICA

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